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SUBJECT: BAHAMAS BUDGET PRESENTATION CONFIRMS GRIM OUTLOOK

11. (U) SUMMARY: Prime Minister Ingraham confirmed grim expectations for economic performance during his annual budget report May 27. He promised to decrease government recurrent expenditure in the coming fiscal year but said he does not expect a recovery before 2012. END SUMMARY.

ECONOMY CONTRACTING, PUBLIC
DEBT RISING

12. (U) In his annual budget presentation before the national assembly, PM Ingraham reported that the International Monetary Fund (IMF) has projected negative real growth for 2009 and 2010 and positive real growth thereafter. Given the current GDP report, and a real GDP growth rate of negative 1.7 per cent, the government has accepted these projections. According to PM Ingraham, the economy was adversely affected by external economic pressures which lead to decreased foreign direct investment and government revenues -- a shortfall of \$260 million -- as well as contracted tourism and private consumption. With the expected deficit at \$422 million by month's end the GCOB expects what it recognizes as an unsustainable level of government debt to GDP ratio of 43.2 per cent by June of next year.

GCOB CUTTING COSTS, INCREASING
CAPITAL SPENDING

13. (U) In the face of this crisis the GCOB has chosen to take measures to reduce recurrent expenditures. With the exception of the public service and health sector, public agencies were given allotments 6 per cent lower than the previous fiscal period. A moratorium has been placed on government hiring and vacated positions will not be filled. The travel budget has been revamped to exclude international conferences and other non-essential trips. Finally, the GCOB has chosen to forego medical insurance for teachers, doctors and nurses in the coming fiscal year.

14. (U) Conversely, in a nod toward employment, capital spending has been increased to \$255 million to complete the major works projects the government announced in November 2008 to counteract the effects of the global downturn. Included in these are the New Providence road project, the Nassau Harbor project, the revitalization of downtown Nassau, including the movement of the port to Arawak Cay and the construction of the Straw Market, renovation and completion of the court buildings, and the continuation of the redevelopment of Lynden Pindling International Airport, the main international gateway to The Bahamas. Notwithstanding the fiscal deficit, and with the exception of a minor rate change, the GCOB will not be introducing any new taxes and is, rather, reducing some tariffs. This move ensures that similar products face the same rate. For example the rate on computer monitors imported separately is being reduced from 10 per cent to 'free' to align it with the rate on monitors imported with a computer.

SEEKS INCREASED FINANCIAL
TRANSPARENCY, REVENUE

15. (U) Finally, the PM reported that the GCOB will sign the required Tax Information Exchange Agreements (TIEA's), beginning with Canada, in an effort to protect the financial industry. Also, they will be taking steps to reform government agencies beginning with Business License and the Department of Customs. The efforts will be targeted to modernizing revenue collection and enhancing efficiency of essential government services.

16. (U) In a press conference held later in the day, leader of the opposition Perry Christie criticized the budget as lacking creativity and giving no clear direction for the way forward. He added that he was especially disquieted with the government's decision to eliminate the health insurances of public servants. Some of his concerns were echoed by outgoing Bahamas Chamber of Commerce chief, Dionisio D'Aguilar, who said the budget lacked any plans for foreign direct investment in non-tourism related fields. Contrary to Christie's sentiments, the heads of the nurses' union and teachers' union confirmed that they were informed and agreed with the decision to drop their health insurances especially in light of the current economic circumstances.

COMMENT

17. (U) Though the budget report gives a grim economic outlook for the near term the GCOB is hopeful that their plan will keep the

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Bahamian economy afloat until the world economy turns around. Absent from the communication, however, were other private revenue generating projects or any plan to diversify the economy. In particular, no mention was made of the long-delayed LNG project. The PM did give a brief overview of the privatization of public corporations, more specifically Bahamas Telecommunications Corporation. But no details were provided about the sale of other hemorrhaging public corporations, such as the Broadcasting Corporation of the Bahamas.

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